

2013/08/13 : CIA-RDP09-00956R000105640001-8

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OFFICIAL ROUTING SLIP

STAT

TO	NAME AND ADDRESS	DATE	INITIALS
1	A/Chief, ELAD	31/8	
2	Chief, Production Group	✓	
3			
4			
5	AC/Elad	5/9	
6	C/LAB		
ACTION		DIRECT REPLY	PREPARE REPLY
APPROVAL		DISPATCH	RECOMMENDATION
COMMENT		FILE	RETURN
CONCURRENCE		INFORMATION	SIGNATURE

Remarks:

Some months ago, LAB and FBIS became involved in a potentially sensitive situation revolving around reportage on the activities of Vesco in Costa Rica. FYI, the attached indicates continued, and, in fact, growing interest in Vesco and his impact on Costa Rican politica, especially in view of the upcoming 1974 presidential elections.

As our assets permit, we shall be reporting on this campaign, letting the Vesco chips fall where they may.

only insofar as such ^{reportage} coverage is incidental to our normal coverage. We should not accept outside requests for special coverage. -

STAT

FOLD HERE TO RETURN TO SENDER

FROM: NAME, ADDRESS AND PHONE NO.

DATE

Chief, LAB

30 Aug 73

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PROGRAM

FN 8 US

 XRFN 9 Costa Rica
 FILE DESIGNATION

RM/R	REP	AF	ARA
1	1		
EUR	FE	NEA	CU
INR	EB	P	IO
6	4		
L	FBO	AID	4
3		13	
	S/S	PN	NO
	10	2	13
AGR	COM	FRB	INT
	10	3	
LAB	TAR	TR	XMB
		4	4
AIR	ARMY	NAVY	OSD
5	3	10	34
USIA	NSA	CIA	756
10	3	16	6
	SEC		DPIC
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Original to be Filed in _____ Decentralized Files.

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NO.

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E.O. 11652:

TAGS:

INFO:

 Department of State
 GDS
 PINT, EFIN, CS
 AmEmbassy, NASSAU

 RETURN TO
 CHIEF, LAB

STAT

FROM : AmEmbassy, SAN JOSE

DATE: August 7, 1973

SUBJECT : The Vesco Factor in Costa Rican Politics

REF :

SUMMARY

Robert Vesco's investments in Costa Rica and his relations with President Figueres have been the object of great public and press debate, mostly critical, since Vesco's name first appeared on the public scene in September 1972. As 1973 moves past the half-way mark and the tempo of the presidential election campaign picks up, Vesco's associations and influence have become an increasingly important political topic and promise to be a big campaign issue.

Many believe Vesco has safeguarded his operations in Costa Rica through partisan political investments and contributions. Whether he has or not is almost moot since the widespread perception that he has is in itself the operative political consideration. Vesco and his relationships for profit with high Costa Rican government officials will certainly be a vulnerable issue for the PLN in the upcoming campaign. This discussion looks at the impact of the Vesco involvement in Costa Rican business and politics and problems and opportunities it poses for the various candidates.

THE VESCO FACTOR IN COSTA RICAN POLITICS

The impact on Costa Rican politics of large amounts of offshore mutual fund capital has been the object of speculation and suspicion within Costa Rican public and political circles and,

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despite a traditionally short Costa Rican memory for scandal, appears to be a factor of increasing significance in the upcoming presidential campaign. The full weight of the \$25 million to \$60 million invested by Vesco is, of course, impossible to measure as any amounts invested directly in politics are difficult to identify. Should Robert Vesco in fact eventually put \$60 million in Costa Rica, his investments would total more than 5 percent of the Costa Rican gross national product. President Figueres has said on several occasions, by way of explaining the non-political character of Vesco's investments, that they have been placed more on the opposition side than with undertakings affiliated with the government. Observers do not doubt that these investments have straddled the political fence for the purpose of securing political immunity regardless of which party emerges victorious in 1974. The point is, in any case, that when such large amounts of money are laid into this economy a political impact cannot be avoided. The question is, therefore, not whether there is an impact, a political impact, but what effect the perceived image of Vesco's deals is having and will continue to have on Costa Rican politics as they move into the homestretch of an election year.

Although there have been frequent private allegations to suggest that one or another of the presidential candidates' campaign chests has been enriched by Vesco (or Clovis MacAlpin of the Capital Growth Fund), these have all met with adamant denials from the parties involved. Obviously, with the popular mind sharply sensitized by the domestic and international press to any suggestion of involvement in Costa Rica by mutual fund operators, acknowledgment of such political contributions would be politically damaging to say the least. However, Costa Rican politicians are past masters at using the planted innuendo as a campaign device and Costa Rica in an election year is fertile ground for juicy rumors. The result is that, whether containing a grain of truth or not, the Costa Rican public and many respected observers are quite convinced that Vesco and MacAlpin are involved in the campaigns, just as they are ^{alleged to be} involved in almost any large new investment project under consideration or consummated. In understanding the impact on politics we are faced largely with the task of analyzing what people perceive as reality and less what has actually transpired.

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Page 3THE NATIONAL LIBERATION PARTY (PLN)

The presence in Costa Rica of large amounts of offshore mutual fund capital is openly acknowledged by the PLN patriarch and President of Costa Rica Jose "Don Pepe" Figueres. Don Pepe accepts the funds' presence as his responsibility and defends them as bringing benefit to the country. In his several public defenses of the funds, specifically Vesco's and MacAlpin's, he has said that he had tried for several years to attract mutual fund capital and has only now achieved some success from his efforts. It is commonly known too that Figueres' chronically bankrupt firm, San Cristobal, Ltd., has been saved from bankruptcy on two occasions by injections of mutual fund capital investment, once in 1968 by MacAlpin and another time in 1972 by Robert L. Vesco.

Daniel Oduber, the PLN presidential candidate for the February 1974 elections and, at this early point, the odds on favorite, does not appear to share the President's enthusiasm for Vesco and MacAlpin. Oduber is sensitive to the implications for his campaign of attacks against Figueres and the PLN on the mutual fund issue; specifically, allegations of unethical collaboration between the President and the mutual fund directors. The issue has caused and promises to continue to cause strain between Don Pepe and Oduber, although publicly the President has sought to take Oduber off the hook by accepting full responsibility for offshore mutual fund's presence in Costa Rica. Oduber is a one-time loser (1966), probably is facing his last chance at the presidency and, consequently, is anxious to separate himself from unnecessarily vulnerable areas such as Figueres' fascination with mutual fund capital. On the other hand, Oduber needs Don Pepe's support to win in 1974. Oduber is not as appealing a candidate as Figueres was in his earlier years, including 1970 when he was elected President by the greatest popular majority in Costa Rican history. Oduber does not need Vesco's or MacAlpin's financial support to run the kind of campaign he expects to mount in his run for the presidency. However, Don Pepe's patriarchal role in the PLN as its unquestioned leader, combined with his wish that Daniel Oduber win in 1974--some say to guarantee protection for questionable business enterprises as well as to maximize the influence he hopes to maintain over the government when he is out

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of office--render the relationship between the two highly interdependent. While there probably have not been direct Vesco contributions to the Oduber campaign there undoubtedly have been substantial investments in business and projects which are ultimately beneficial to the PLN, Oduber, and Don Pepe's economic and political future.

Figueres has often complained that development capital has not been sufficiently available for Costa Rica to carry out the social programs which Figueres believes are necessary. This is his public rationale for bringing mutual funds to Costa Rica. Part of this capital has ended up in the government bonds to help government agencies make ends meet. Another portion has gone into a private undertaking, headed by Figueres' son-in-law, to build low-cost pre-fabricated housing; some into real estate; some is said to be behind the Gulf distributorship purchase by a Figueres ally; and some is probably behind the new PLN-oriented newspaper, Excelsior. These are only to mention some of the transitions more vigorously rumored about San Jose. Whatever happens to Robert Vesco as a result of legal process in the US, both Figueres and Oduber believe his investments in Costa Rica should remain and continue to provide economic underpinning to the present and any incoming PLN Administration. (In this, they may be right since many of these are not particularly liquid.) The pre-fabricated housing project, under the direction of Danilo Jimenez, President Figueres' son-in-law, is an example of fund investment serving a PLN social objective, together with Figueres' personal interests. An investment more directly related to the campaign and Figueres' deep-felt notion that he has long labored uphill against a hostile press is the likely Vesco involvement in the new newspaper, Excelsior, which is intended to reflect a favorable bias toward the PLN. Figueres told a prominent San Jose editor that Vesco is participating in this undertaking. Oduber is closely affiliated with this project through Luis Burstin, the newspaper's director as well as a confidant of Don Pepe. Also, there is some good evidence to suggest the Vesco shell company, Costa Rican Communications S.A., is a channel for mutual fund money into Oduber's media programs which include extensive use of political campaign films and closed-circuit television. Mario Sotela, Director of an important television station in San Jose, is registered as one of the directors of the Costa Rican Communications Company as is Burstin. A highly-placed

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PLN official--and other sources--told the Embassy in confidence that Vesco had backed the purchase by CARI, S.A., of the Gulf oil distributorship chain in Costa Rica. The purchase price was said to be over \$2 million.

What does all this mean for Oduber's campaign? In recent weeks there have been increasing indications that Oduber is becoming disturbed over the drumfire criticism Figueres, the PLN and his candidacy, have been receiving over the President's involvement with Vesco. The Costa Rican rural voter does not understand the complicated Vesco issue, but even PLN campaign workers acknowledge some erosion caused partly by Vesco in traditionally strong rural areas. In urban areas, where newspaper impact is significant, steadily critical press treatment of the Vesco factor has been steadily eroding an already none-too-strong PLN base. In the 1966 elections Oduber did not do well among the traditionally PLN-oriented campesinos, a deficiency which cost him the presidency. Despite traditional PLN rural strength developed by Pepe Figueres over the years, Oduber, fundamentally an intellectual candidate, appeals stronger in the cities.

Probably more important than the effect of the Vesco factor on the PLN urban vote will be its impact upon the large, newly enfranchised young voter group. The 18-24 year-old electorate is estimated to comprise between 200,000 and 250,000 voters. Among the youth there has been noticeable disenchantment with Figueres over his support of Vesco--a fact that worries Daniel Oduber. Costa Rican youth might normally be expected to cast its majority vote for the PLN, but the Vesco situation seems to have cooled them on the PLN and may even push them to another candidate. Apathy is the word that today characterizes Costa Rican youth's attitude towards politics.

Another problem for Daniel Oduber is the attitude of his so-called technocrats--men like ex-Minister of Economy Jorge Sanchez Mendez, Carlos Manuel Castillo, Rodolfo Solano Orfila, Fernando Naranjo, and José Manuel Salazar Navarrete, just to name a few. These advisors are known to be increasingly disturbed with Figueres and known to be urging Oduber to begin to put some distance between himself and the President on selected and politically damaging issues. While none of them have sufficient political clout with the candidate to force the issue, their growing disenchantment may have some impact on Oduber.

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Oduber expects this inner party reaction to be manageable, but Vesco has provided the opposition with a specific and clearcut focus on which it can attack his candidacy and the PLN for not disavowing its relations with Vesco.

In the final analysis it all goes to how far Oduber thinks he can or wants to move from or against Figueres before encountering diminishing returns. Given Figueres' strong personal interest in preserving what he has built, ethically or less so, it may well be that Oduber can move quite far. So far, Oduber has not been attacked directly for involvement with mutual funds, so the issue also depends to some extent on how deeply the opposition itself is involved and thus how vulnerable its leaders estimate themselves to be if the Vesco issue is thoroughly exploited as a campaign theme.

The National Unity Party (UN)

The disturbance within the top echelon of the UN party over the signatures by UN deputies, Guillermo Jimenez Ramirez (Secretary General of the Party) and Longino Soto Pacheco (a leading Trejos booster) to the Vesco Commission Majority Report which exonerated the mutual fund operations in Costa Rica, was severe and the repercussions have not yet died down. The UN presidential candidate claims, probably correctly, that he was not aware of the intentions to sign the report of the two leading UN deputies, Jimenez and Soto.

While observers find it incredible that two prominent members of the UN party such as Jimenez Ramirez and Soto Pacheco, a one-time opposition presidential candidate now supporting Trejos, would take an action so obviously detrimental to their candidate's interest, it is altogether possible, given the power play going on within the party, that Trejos was not consulted. Trejos told the Embassy confidentially that this was the second time he has not been able to control the opposition deputies on issues important to his campaign. An earlier case occurred several weeks ago when UN deputies split from his position and allowed an important education bill to pass. Trejos said he has taken steps to improve coordination between his people and the deputies to assure his party fraction in the Legislative Assembly follows instructions on future issues.

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Notwithstanding Dr. Trejos' explanation, based on the realities of his poor relations with his deputies and other members of the "old guard" UN party, there are rumors circulating in this town which suggest more insidious motives behind the UN signatures on the report. One persistent story holds that Francisco "Paco" Calderon Guardia, the UN party chief, and President Figueres have been in cahoots all along in a scheme that would protect and preserve the UN as the country's secondary major party, but with the immediate objective of securing Oduber's election in 1974. The logic includes such factors as Trejos' greater affinity to his young business-oriented economic advisors and financial contributors commonly referred to in Costa Rica as the "Boy Scouts" than to the UN party apparatus headed by "Paco" Calderon. Thus the UN "old guard" is concerned that a Trejos victory might mean their being sidelined from crucial party decisions in the future. Supportive of this viewpoint is the rumor that both Jimenez Ramirez' and Soto Pacheco's signatures to the majority report were bought by Vesco through Figueres' crony Alberto Inocente Alvarez to the tune of \$50,000 each. Inocente Alvarez is also alleged to have drafted the majority report in the Casa Presidential. (Figueres' admission of having contributed key parts to Vesco's March 6 speech lends credence to this hypothesis in the view of some observers.) Another story holds that the entire executive committee of the UN party agreed to accept a substantial Vesco campaign contribution and also allowed the payoff to the two deputies because of the precarious financial footing of the UN campaign and the political risk taken by the two deputies exonerating Vesco. There is no doubt that there has been at least one meeting between Vesco's people (Strickler) and the financial managers of the UN campaign. However, in admitting the meeting, a high level UN official denied to the Embassy that a deal had been struck and maintained it would not be as long as the other possible sources of money continue to be promising. These other sources had not borne fruit as of mid-June, but with the heat now radiating from Vesco it is highly doubtful that as a party the UN would care to run the risk of direct involvement. The possibility, however, of a connection that avoids the UN party structure, but includes Calderon and the deputies, has somewhat higher probability, although the Trejos people doubt it and the likely deputies involved categorically deny it.

As mentioned, one of the repercussions of the Vesco Commission Report has been to further aggravate the already existing friction between Trejos, his "Boy Scouts," and "Paco" Calderon Guardia. The indications are now

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that the "old guard" is as anxious as the "Boy Scouts" to avoid a rupture as the party has now just about passed the point of no return for selection of a candidate. The forum for the final test of strength prior to the elections will be the UN National Assembly* which must be convoked before the candidate can officially register his candidacy with the electoral court (Supreme Electoral Tribunal). The test will not be over Trejos' candidacy for even if several significant old guard leaders are not exactly enamoured with their candidate, they are forced to acknowledge that he was selected in the open party primary on December 3, 1972, and was thus the choice of the party's rank and file. The crunch, however, will be over control of the Assembly's selection of the party's deputy candidates and other lesser decisions relating to party patronage. Trejos says that he is certain the majority of the delegates to the new UN National Assembly will be under his control and thus his word will determine the selection of the rest of the candidates of the UN ticket. In reality, it is likely that "Paco" Calderon and Trejos will work out a modus vivendi whereby delegates to the National Assembly and thus the candidates chosen by the Assembly will be generally acceptable to the two of them. Trejos hoped to convene the Assembly in July while the "old guard" wants to hold off until September or October in order to wait and see if anything happens to Trejos or perhaps out of concern that an early Assembly would prejudice its internal tactical position. The scheduling of the Assembly, earlier or later, will suggest which group will have ultimate control over the UN.

To sum up, although the Vesco factor impact has exacerbated existing inner party frictions, the time is short, and the party has begun to solidify, if out of necessity rather than choice, behind Trejos. With the Assembly near all factions will likely do their best to reach consensus solutions and to avoid further difficulties in order to get on with the campaign and preserve the integrity of the UN party.

THE NATIONAL INDEPENDENT PARTY (PNI)

The PNI and its candidate, ex-US citizen Jorge Gonzalez Marten, have for some months loomed as the big question mark in the campaign for the 1974 elections. After the UN pulled out of the opposition primary race set for May 20 Gonzalez Marten and his PNI seemed to lose animation; publicity dropped off and rumors circulated that the party was in

*The party national assembly is required under the electoral code to be convoked and re-elected once every four years. The new assembly must ratify party candidates who must be inscribed before October 18, 1973.

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financial straits. A strong rumor held that the credit of some \$500,000 which Gonzalez Marten had obtained and had begun to put into an aggressive primary campaign was conditioned by lenders in the expectation that the primary would be held and that Gonzalez Marten would win it. When Trejos pulled out of the primary, Gonzalez Marten was said to have lost the line of credit he had been promised and was forced to cut back sharply on his campaign efforts. By mid-May the PNI campaign had, for these likely reasons, ground to a complete halt. Despite the change in campaign vigor, Gonzalez Marten in June and July showed no signs of giving up. He indicated to the Embassy that he was in for the long pull in the hopes that local and hopefully foreign resources would begin filling his campaign coffers.

Political observers, who had expected Gonzalez Marten to come out strongly against the Vesco Commission Report, began speculating, when he did not, that he too was on the take. The explanation offered by Jorge Gonzalez Marten's opposition--PLN, UN, and PRD--is that Gonzalez Marten was so low on money that he had thrown in with either Vesco or MacAlpin--the logical price for their support being his agreement to avoid harsh political criticism of mutual fund operations in Costa Rica. To add credence to this theory there is some evidence to indicate that at the end of May 1973 Gonzalez Marten travelled to Managua, Guatemala City, and Florida with Clovis MacAlpin in the latter's private plane. Such a risky venture would tend to confirm reports that the PNI is desperate for financing and explains the lack of forceful PNI publicity critical of mutual fund investment. Gonzalez Marten has confirmed to the Embassy his financial problems, particularly the drying up of his primary campaign assets when Trejos withdrew. PNI insiders have said privately that Gonzalez Marten has been urged by his Barahona Faction to jettison Carlos Manuel Rojas, the party's current candidate for first vice-president. Rojas is a personal friend and business partner in some ventures with Clovis MacAlpin. Within the party, the Rojas matter is causing frictions and suspicions that Don Jorge's desperate need for money has indeed caused him to cast his lot with the devil.

THE NATIONAL RENOVATION PARTY (PRD)

The PRD, and its presidential candidate Rodrigo Carazo Odio, is the only political group of the top four which has managed to maintain itself unblemished by the Vesco Factor. Carazo is also the least important of the

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four, but is included in any analysis of the first line candidates because he could be the recipient of a large chunk of disgruntled PLN votes which may decide to leave the PLN over Oduber's apparent unwillingness to vigorously put daylight between himself and the President. Carazo knows his chances of winning the 1974 elections are slim, but he believes they are improving in direct proportion to the moral disintegration of the PLN under the impact of the Vesco factor. In Carazo's view the dissatisfied PLN voter will rarely turn to the UN and is even less likely to be attracted by the hard right image of Gonzalez Marten. Thus a badly split opposition, combined with a morally shattered PLN, could afford the PRD an opening to possibly emerge with Carazo as a strong candidate.

In a possible runoff for the presidency, in the event no candidate acquires 40 percent of the vote on February 4, Carazo, if not one of the two in the runoff, could provide a powerful assist to the opposition candidate in exchange for consideration in the incoming government. Carazo would not collaborate with Gonzalez Marten and would only agree to help Trejos if the UN presidential candidate assured him that key UN party leaders who have been suspected of a deal with Vesco will be sidelined when Trejos comes to power.

Carazo has so far been the only political candidate to vigorously attack the Vesco factor, although Trejos says he will begin such a campaign beginning in August or September.

CONCLUSIONS:

Most of the substantial information about the Vesco factor is rooted in speculation and hearsay, but even this has had an unmistakable effect on Costa Rican public opinion, especially since facts have not been presented to clear the air or the persons implicated have been evasive or have been proved to have misrepresented themselves. The Costa Rican public seemed about fed up with the series of critical but inconclusive revelations over Vesco when the July 9 disclosure that Figueres drafted key parts of Vesco's speech aggravated the issue. This proof of presidential involvement with Vesco in the hands of opposition politicians will, in the days to come, tend to heat up, perhaps prematurely, the temperature of the electoral campaign. This kind of material could normally have been expected to emerge in December or January when maximum campaign effect would be sought by the opposition.

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Despite Figueres' vulnerability, Rodrigo Carazo, alone among the presidential candidates, probably will be able to fully exploit the issue. The others may have to pull their punches in fear of eliciting counter attacks in kind. Of course, an important mainspring still behind the Vesco factor is not in Costa Rica, but in the United States. Trejos and others opposed to Oduber cannot help but benefit from aspects of the Vesco story as it is bound to unravel in the US courts. Any further legal proceedings would simply extend and deepen Oduber's difficulties, as would evidence that Robert Vesco has decided to permanently locate in Costa Rica.

VAKY


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